

Friday, 20 August 2021

| Equities (close & % change)              |          |        | Sydney Futures Exchange (close & change) |         |             |                      |             | Interest rates (close & change) |       |       |
|--|----------|--------|--|---------|-------------|----------------------|-------------|---------------------------------|-------|-------|
| S&P/ASX 200                              | 7,465    | -0.5%  |  |         | <b>Last</b> | <b>Overnight Chg</b> |             | <b>Australia</b>                |       |       |
| US Dow Jones                             | 34,894   | -0.2%  | 10 yr bond                               | 98.94   |             | 0.00                 | 90 day BBSW | 0.01                            | 0.00  |       |
| Japan Nikkei                             | 27,281   | -1.1%  | 3 yr bond                                | 99.78   |             | 0.00                 | 2 year bond | 0.03                            | 0.00  |       |
| China Shanghai                           | 3,632    | -0.6%  | 3 mth bill rate                          | 99.99   |             | 0.00                 | 3 year bond | 0.19                            | -0.03 |       |
| German DAX                               | 15,766   | -1.3%  | SPI 200                                  | 7,409.0 |             | 34                   | 3 year swap | 0.37                            | 0.00  |       |
| UK FTSE100                               | 7,059    | -1.5%  | FX Last 24 hrs                           | Open    | High        | Low                  | Current     | 10 year bond                    | 1.08  | -0.06 |
| <b>Commodities (close &amp; change)*</b> |          |        | TWI                                      | 60.9    | -           | -                    | 60.5        | <b>United States</b>            |       |       |
| CRB Index                                | 209.1    | -3.8   | AUD/USD                                  | 0.7238  | 0.7243      | 0.7142               | 0.7148      | 3-month T Bill                  | 0.05  | -0.01 |
| Gold                                     | 1,780.38 | -7.4   | AUD/JPY                                  | 79.48   | 79.55       | 78.25                | 78.46       | 2 year bond                     | 0.22  | 0.00  |
| Copper                                   | 9,032.00 | -201.5 | AUD/GBP                                  | 0.5262  | 0.5265      | 0.5226               | 0.5243      | 10 year bond                    | 1.24  | -0.01 |
| Oil (WTI)                                | 63.69    | -1.8   | AUD/NZD                                  | 1.0517  | 1.0537      | 1.0448               | 1.0469      | <b>Other (10 year yields)</b>   |       |       |
| Coal (thermal)                           | 158.75   | -3.8   | AUD/EUR                                  | 0.6180  | 0.6187      | 0.6114               | 0.6121      | Germany                         | -0.49 | -0.01 |
| Coal (coking)                            | 226.00   | 7.5    | AUD/CNH                                  | 4.6946  | 4.6972      | 4.6447               | 4.6457      | Japan                           | 0.02  | 0.00  |
| Iron Ore                                 | 134.45   | 3.8    | USD Index                                | 93.2    | 93.6        | 93.2                 | 93.6        | UK                              | 0.54  | -0.03 |

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

**Main Themes:** Markets continued to focus on the prospect of Federal Reserve tapering and virus concerns, with little fresh news. US stocks chopped sideways and US bond yields finished largely unchanged. The AUD/USD fell to its lowest level in almost 10 months.

**Share Markets:** US stocks fluctuated in a volatile session. The Dow finished down 0.2% while the S&P 500 increased 0.1%. The ASX 200 slid 0.5%.

**Interest Rates:** US 10-year yields closed slightly lower at 1.24%, while US 2-year yields finished unchanged.

Australian 10-year (futures) yield hovered around 1.07% and 3-year futures yields were broadly unchanged at 0.23%.

**Foreign Exchange:** The AUD/USD continued its march lower, breaching 0.7200 for the first time in almost 10 months. The Australian dollar fell from 0.7238 to 0.7148 against the US dollar. The US dollar strengthened.

**Commodities:** Iron ore is trading around a nine-month low. WTI crude oil declined to a three-month low. Copper and gold also fell.

**COVID-19:** NSW recorded 681 new cases yesterday. This was the highest number of daily infections on record in NSW.

Elsewhere, the ACT recorded 16 new cases and Victoria 57.

The lockdown in regional NSW has been extended to 28 August.

In the Northern Territory, the lockdown in Katherine has been extended for another 24 hours. The lockdown in Darwin has ended with trailing restrictions still in place.

All Australians aged 16-39 will be eligible for the Pfizer vaccine from 30 August.

Meanwhile, 11 new cases were reported in New Zealand, taking the total to 21 in the outbreak which broke the country's six-month COVID-free run.

**Australia:** With much of the country in lockdown for some or all of July, it might seem a little counterintuitive that employment actually increased by 2.2k in the month and the unemployment rate fell to 4.6%, its lowest level in 12 years. But the devil is in the detail.

The labour force survey was conducted in early July, too early to capture the full extent of the impact of recent lockdowns. It was in the first few weeks of the NSW lockdown, before construction was shutdown. Plus, Victoria was reopening following its snap lockdown in June.

The fall in the unemployment rate in July mostly reflects a decline in the participation rate from 66.2% to 66.0%. Participation typically declines in lockdowns as people give up looking for work.

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Hours worked is usually a more accurate measure of the impact of lockdowns on the labour market than jobs numbers since employers tend to favour cutting hours over headcount.

In aggregate, hours worked declined 0.2% in July. But this disguises significant offsetting movements across the states. Hours worked fell drastically in NSW, dropping 7.0%, while they shot up 9.7% in Victoria.

We expect to see significant job losses over the coming months. We anticipate the unemployment rate will increase to the high 5s. However, we expect a fast rebound. We have forecast the unemployment rate will reach near 4% at the end of 2022.

**Eurozone:** The euro area current balance increased to €21.8 billion in June, up from a revised €13.9 billion in May.

**United States:** Initial jobless claims fell from 377k to 348k in the week ending 14 August, lower than the 364k expected and the fourth straight decline. Continuing claims fell to 2.8 million from 2.9 million. Both series reached a new pandemic low. Rising infection numbers have not pushed up layoffs, with the improvements in the labour market paving the way for the Federal Reserve to commence tapering bond purchases.

The Philadelphia Fed activity index fell from 21.9 to 19.4 in August, marking its lowest level since December. Producer sentiment has waned since its peak in April, reflecting the moderating outlook and factories struggling to keep up with demand, partly due to bottlenecks in global supply chains.

The Conference Board's leading index rose 0.9% in July to 116, a new record high. It points to an ongoing recovery in the second half of the year, as vaccine numbers increase and constraints on labour supply ease.

**Today's key data and events:**

UK GfK Consumer Sentiment Aug exp -7 prev -7 (9:01am)

AU RBA's Kent to Address FX Conference (9:05am)

JN CPI Jul y/y exp -0.4% prev -0.5% (9:30am)

NZ Credit Card Spending Jul prev -1.0% (1pm)

UK Retail Sales Jul exp 0.2% prev 0.5% (4pm)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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